

Financial Management

Module-4



Objectives

At the end of this module, you will be able to:

Identify areas which will enable you to manage your finances.

List components of financial management.

Develop a basic budget worksheet.

Complete a financial planning worksheet.

Order a credit report.

Interpret a Leave and Earnings Statement (LES).

Purposes of Managing Finances

Live within your means

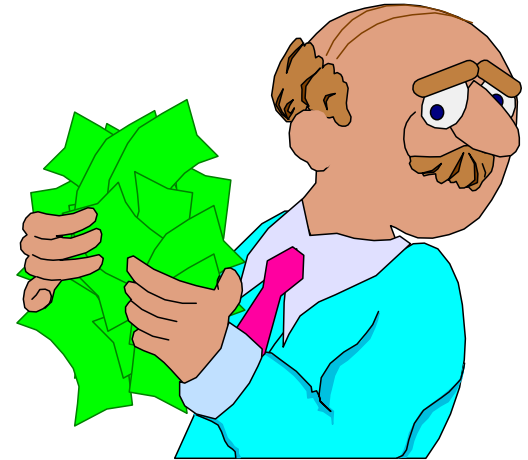
Get more for your money

Reduce financial stress

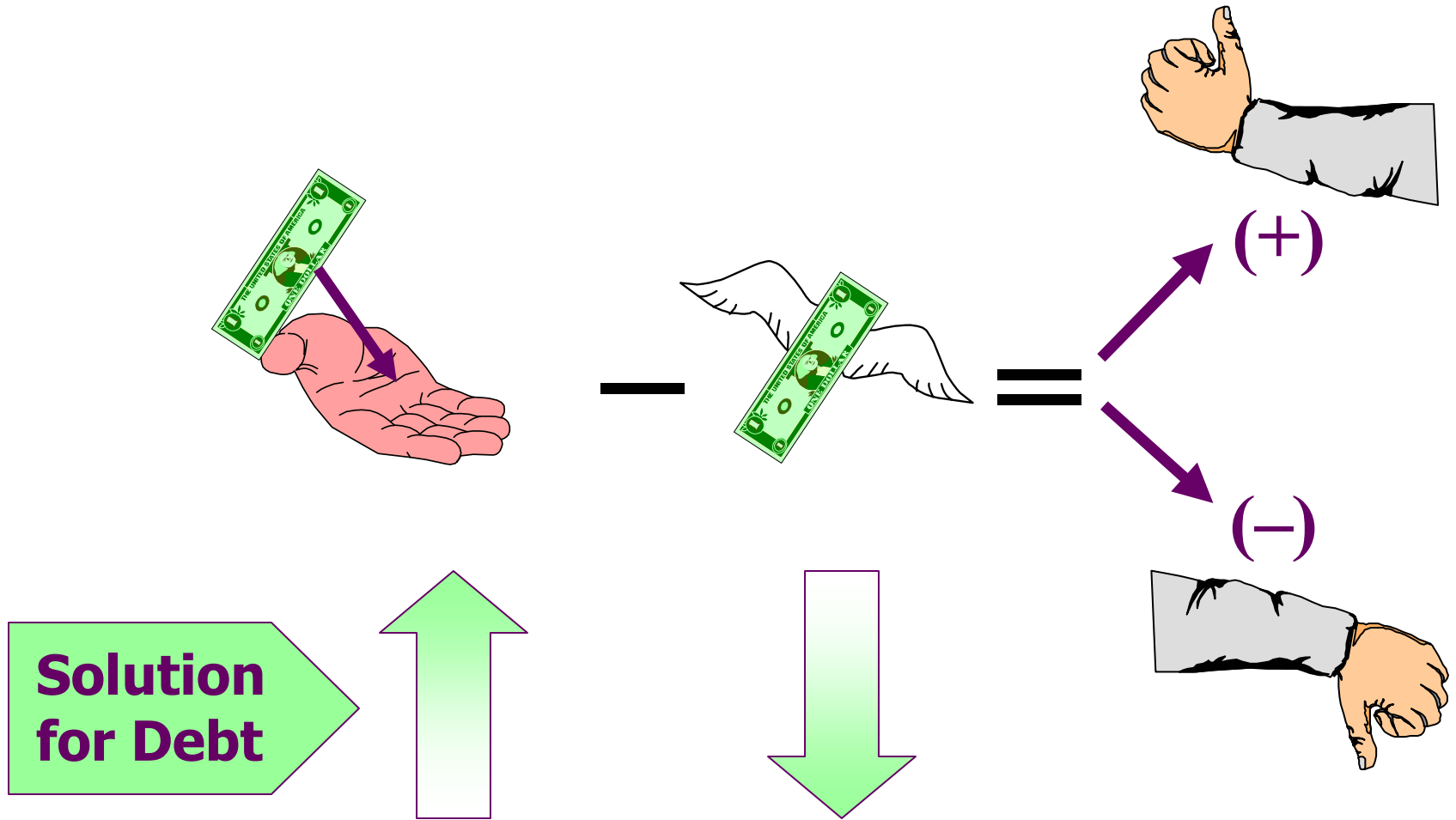
Live comfortably in retirement

Achieve balance in your life

Achieve your dreams



Budgeting



Debt-to-Income Ratio

Total Indebtedness/ Net Income

(Do not include mortgage)

<15%	—	Use caution
15– 20%	—	Fully extended
21 – 30%	—	Overextended
>30%	—	Seek help immediately

Approaches for Decreasing Expenses

Comparison shop

Only buy essentials

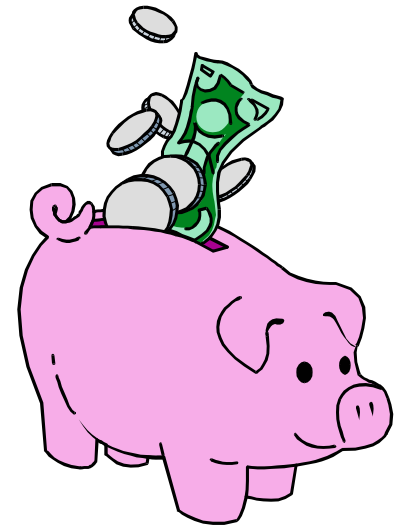
Pay off as much as you can

Lower your phone bill

Lower your utility bill

Refinance your mortgage

Be smart



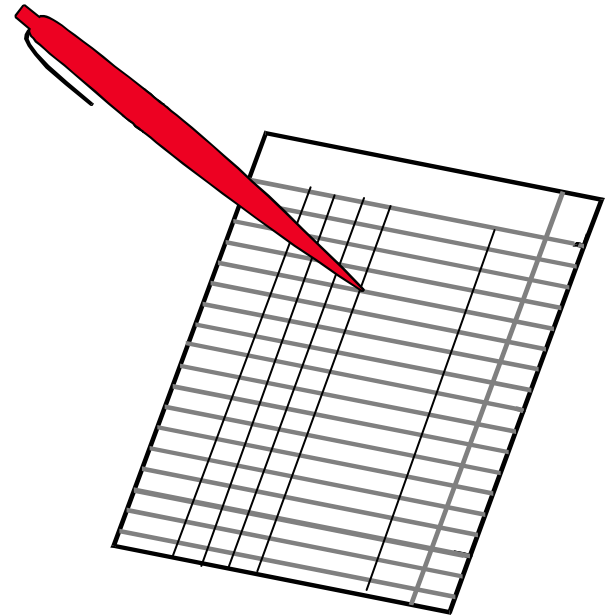
Tracking Monthly Expenses

Amount of the expense

Purpose of the expense

Date of the expense

Total monthly expenses
for each category



Leave and Earnings Statement (LES)

A monthly statement showing all
pay changes and information
for the month.

Purposes of Savings Accounts

Unexpected purchases

Plan for retirement

Achieve your dreams



The Time Value of Money

The Magic of Compounding

MONEY

+ TIME

+ INTEREST (rate of return)

= MORE MONEY!!

Savings Factors to Consider

Safety

Liquidity

Yield

Types of Investments

Stocks

Bonds

Mutual Funds

Hard Assets

Power of Compounding Interest

22 YRS OLD	22 YRS OLD
\$2,000 @ 12% INT. APR	\$00.00
\$2,000	0
\$2,000	0
\$2,000	0
\$2,000	0
\$2,000	0
28 YRS OLD	28 YRS OLD
Next 37 yrs invests \$0.00	Next 37 yrs inv. \$2,000.00
Total invested \$12,000	Total invested \$76,000
Approx. return on invest.	Approx. return on invest.
@ age 65=\$1,348,440	@ age 65=\$1,366,020

Difference of investment=\$64,000

Establishing a Credit History

Properly maintain checking and savings accounts

Pay bills on time

Share (savings) secured loan

Cosigned loan

Local retailer or gas card

Major retail charge account

Major bank card

Determining Need for Borrowing

Ask yourself a series of questions:

Do I really need to borrow money?

How much do I need to borrow?

How long will it take me to repay it?

What is the interest rate?

Am I credit worthy?

Have I received all information before I sign the contract?

Credit Cards

Get the best deal by comparing:

- Annual fee
- Interest rate
- Grace period
- Terms for cash advance
- Fees: late, over-the-limit, cash advances, other transactions

Warning Signs of Using Too Much Credit

- Not paying off credit cards each month
- Making only minimum payments
- Falling behind on payments
- Owing over 20% net income per month to creditors
- Using credit to pay credit



Ideal Breakdown for Total Net Income

70% — Family/ Personal Expenses

20% — Indebtedness

10% — Savings

Summary

In this module you:

Assessed the financial impact of a life change.

Discussed budgeting your income effectively.

Learned how to keep savings accounts.

Learned the basics about investments.